

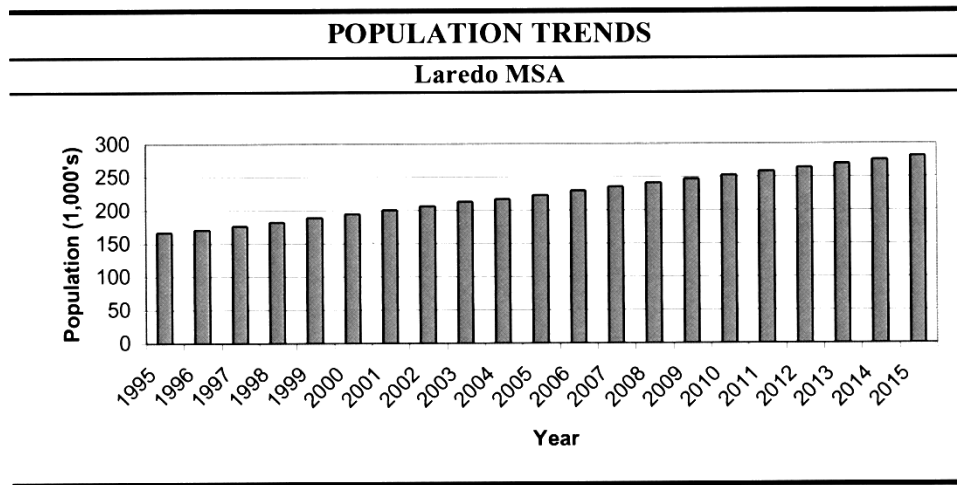
ECONOMIC ANALYSIS

THE LAREDO MSA AREA ANALYSIS

An analysis of population, employment, and income trends for the the Laredo MSA and the Texas is performed using data provided by NPA Data Services, a recognized source.

POPULATION

Historical and projected population trends for the Laredo MSA are charted below:



The population of the Laredo MSA increased at a compounded annual rate of 2.79% from 2000 to 2005. For the same time period, Texas grew at a compounded annual rate of approximately 1.63%. Over the last ten years the Laredo MSA's average annual compound change was 2.93%, compared to 1.83% for Texas.

Looking ahead, both the Laredo MSA and Texas are anticipated to experience continued growth, with future population estimates reflecting growth rates similar to those experienced in the past. For the period 2005 to 2015, the populations of the Laredo MSA and the Texas are expected to increase by an average annual compound rate of 2.35% and 1.61%, respectively. For the next five years, the population of the Laredo MSA should grow at a similar rate as the ten year average.

POPULATION TRENDS COMPARISON					
Texas			Laredo MSA		
	Year	Population (000's)	% Change	Population (000's)	% Change
Historical	1995	18,958.8		167.5	
	2000	20,955.2	10.5%	194.8	16.3%
	2001	21,357.5	1.9%	201.4	3.4%
	2002	21,736.9	1.8%	207.1	2.9%
	2003	22,118.5	1.8%	213.6	3.1%
	2004	22,326.6	0.9%	217.4	1.8%
Current	2005	22,718.1	1.8%	223.4	2.8%
Projected	2006	23,109.7	1.7%	229.5	2.7%
	2007	23,503.2	1.7%	235.4	2.6%
	2008	23,899.3	1.7%	241.4	2.5%
	2009	24,281.3	1.6%	247.2	2.4%
	2010	24,665.5	1.6%	253.0	2.3%
	2015	26,652.0	8.1%	281.9	11.5%
Average Annual Compound Change		Historical			
		Past 5 years	1.63%		2.79%
		Past 10 years	1.83%		2.93%
		Projected			
		Next 5 years	1.66%		2.51%
		Next 10 years	1.61%		2.35%

Source: NPA Data Services, Inc.; compiled by IRR

EMPLOYMENT

Employment trends for both the Laredo MSA and Texas should follow a pattern similar to the population trends for these areas, although at higher rates of increase. From 2000 to 2005, the Laredo MSA employment grew at an average annual compound rate of 2.74% compared to 1.63% for the Texas. These figures indicate that the Laredo MSA surpassed Texas in employment growth over the last five years. Looking back ten years, the Laredo MSA employment grew at an average annual compound rate of 3.60%, compared to Texas growth rate of 2.41%.

Over the next five and ten years the Laredo MSA employment growth should [exceed//lag] Texas growth rate. From 2005 to 2010, the Laredo MSA should grow by a 3.52% average annual growth rate, while the long term projection, 2005 to 2015, is for a 3.14% increase. For the same periods, employment in Texas is expected to grow at average annual compound rates of 2.61% and 2.34%, respectively. Employment gains are a strong indicator of economic health and generally correlate with real estate demand. Historically, the Laredo MSA has exceeded Texas's growth rate, suggesting that the Laredo MSA's relative position is strengthening.

Employment trends for the Laredo MSA and the Texas as shown on the following page.

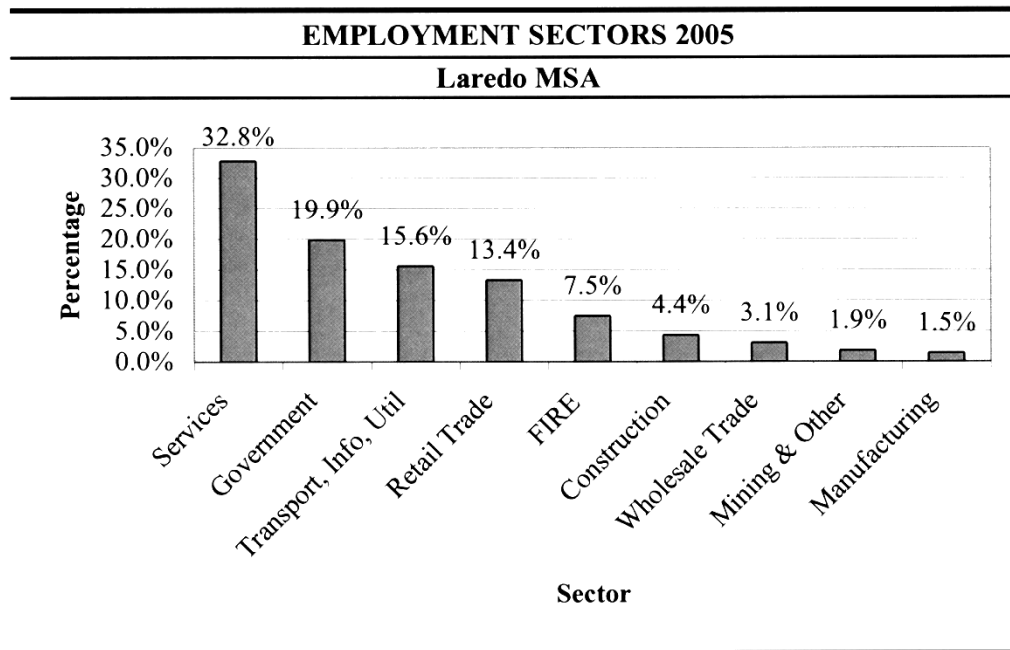
NON-FARM EMPLOYMENT TRENDS COMPARISON					
Texas				Laredo MSA	
	Year	Employment (000's)	% Change	Employment (000's)	% Change
Historical	1995	10,263.5		68.6	
	2000	12,013.8	17.1%	85.4	24.5%
	2001	12,116.9	0.9%	86.9	1.7%
	2002	12,037.3	-0.7%	90.6	4.4%
	2003	12,080.0	0.4%	88.8	-2.0%
Current	2004	12,618.2	4.5%	93.7	5.5%
	2005	13,026.1	3.2%	97.8	4.3%
Projected	2006	13,400.9	2.9%	101.6	3.9%
	2007	13,782.4	2.8%	105.5	3.8%
	2008	14,142.5	2.6%	109.2	3.5%
	2009	14,477.9	2.4%	112.7	3.2%
	2010	14,817.4	2.3%	116.2	3.2%
	2015	16,409.7	10.7%	133.2	14.6%
Average Annual Compound Change	Historical				
	Past 5 years		1.63%	2.74%	
	Past 10 years		2.41%	3.60%	
	Projected				
	Next 5 years		2.61%	3.52%	
Next 10 years		2.34%	3.14%		

Source: NPA Data Services, Inc.; compiled by IRR

Source: NPA Data Services, Inc.; compiled by IRR

The following chart depicts the current distribution of employment by industry. In 2005, the largest employment sectors in the Laredo MSA are:

- Services (32.8%)
- Government (19.9%)
- Transport, Info, Util (15.6%)
- Retail Trade (13.4%)



By comparison, Texas's largest employment sectors are Services (37.7%), Government (14.5%), Retail Trade (11.4%), and FIRE (8.9%).

Over the past three years, the largest meaningful percentage gains in employment within the Laredo MSA occurred within the Mining & Other and FIRE sectors with annual average compound growth rates of 4.83% and 4.25% respectively.

For Texas, the largest meaningful gains in employment over the past three years occurred within the Mining & Other and Services sectors with annual average compound growth rates of 3.0% and 2.7% respectively.

We are unable to examine more than four years of historical trends in employment sectors because the US Department of Commerce switched from the Standard Industrial Classification (SIC) system of employment categories to the North American Industrial Classification System (NAICS) in 2001. NAICS employment categories differ from those of the SIC system, making it difficult to compare pre-2001 and post-2001 data.

Ten year projections for the Laredo MSA show Transport, Info, Util related employment leading all other sectors with FIRE second. The forecast for Texas has Transport, Info, Util related employment leading all other sectors with FIRE second.

EMPLOYMENT SECTOR TRENDS								
Laredo MSA								
	2001	2005	% of Total	2010	2015	Change Rate		
						'01-'05	'05-'10	'05-'15
Total Employment	86.9	97.8	100%	116.2	133.2	3.00%	3.52%	3.14%
Services	28.2	32.0	32.8%	37.2	41.8	3.25%	3.03%	2.70%
Government	16.8	19.4	19.9%	23.3	26.8	3.69%	3.70%	3.27%
Transport, Info, Util	13.5	15.3	15.6%	19.6	23.8	3.22%	5.06%	4.52%
Retail Trade	12.3	13.1	13.4%	14.8	16.4	1.53%	2.56%	2.29%
FIRE	6.2	7.3	7.5%	9.1	10.8	4.25%	4.52%	4.00%
Construction	4.0	4.3	4.4%	4.8	5.2	2.02%	2.40%	1.98%
Wholesale Trade	2.9	3.0	3.1%	3.5	3.9	1.54%	2.98%	2.61%
Mining & Other	1.5	1.9	1.9%	2.3	2.7	4.83%	4.25%	3.76%
Manufacturing	1.5	1.5	1.5%	1.6	1.7	-1.16%	1.98%	1.59%
Ttl Non-Mfg.	85.3	96.3	98.5%	114.6	131.5	3.07%	3.55%	3.16%
Ttl Office-Related*	51.2	58.8	60.1%	69.6	79.4	3.52%	3.44%	3.06%

*Includes FIRE, Services and Government

(Numbers in thousands (000's))

EMPLOYMENT SECTOR TRENDS								
Texas								
	2001	2005	% of Total	2010	2015	Change Rate		
						'01-'05	'05-'10	'05-'15
Total Employment	12,116.9	13,026.1	100%	14,817.4	16,409.7	1.83%	2.61%	2.34%
Construction	855.9	882.6	6.8%	953.0	1,001.7	0.77%	1.55%	1.27%
FIRE	1,053.7	1,158.4	8.9%	1,350.2	1,529.3	2.40%	3.11%	2.82%
Government	1,737.6	1,894.8	14.5%	2,153.2	2,387.4	2.19%	2.59%	2.34%
Manufacturing	1,077.0	1,021.7	7.8%	1,121.8	1,193.1	-1.31%	1.89%	1.56%
Mining & Other	273.5	307.4	2.4%	345.9	380.7	2.97%	2.38%	2.16%
Retail Trade	1,397.8	1,488.3	11.4%	1,693.4	1,874.9	1.58%	2.62%	2.34%
Services	4,405.1	4,908.8	37.7%	5,609.3	6,240.3	2.74%	2.70%	2.43%
Transport, Info, Util	791.5	826.9	6.3%	983.3	1,133.4	1.10%	3.53%	3.20%
Wholesale Trade	524.0	537.2	4.1%	607.2	668.9	0.62%	2.48%	2.22%
Ttl Non-Mfg.	11,040.0	12,004.4	92.2%	13,695.6	15,216.6	2.12%	2.67%	2.40%
Ttl Office-Related*	7,196.4	7,962.0	61.1%	9,112.7	10,157.0	2.56%	2.74%	2.46%

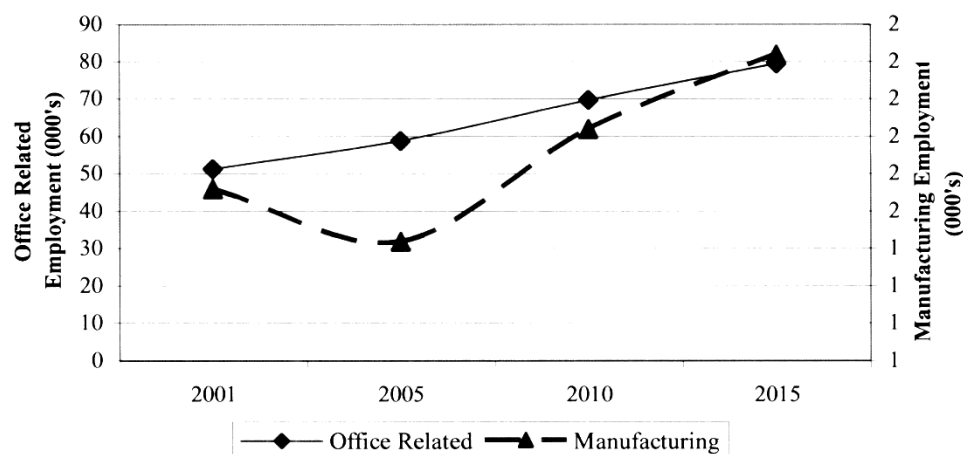
*Includes FIRE, Services and Government

(Numbers in thousands (000's))

In the following chart, we focus on trends in two broad employment sectors: office-related and manufacturing employment. For purposes of this analysis, we define office-related employment as the total number of jobs in the FIRE, Services and Government sectors. While not all employment in these sectors is office-related, office employment trends tend to mirror the trends in these three categories combined.

EMPLOYMENT SECTOR TRENDS

Laredo MSA



the Laredo MSA accounted for approximately 0.67% of Texas's employment in 1995. In 2005, the ratio is 0.74% and it is projected at 0.81% through 2015. This is an indication that the Laredo MSA is growing at a rate [similar to//above that of//below that of] Texas.

The Laredo MSA's economy is not dependent on a particular sector. The employment base is varied, as are the major employers. Therefore, the Laredo MSA should be less susceptible to cyclical fluctuations that have occurred in other areas dominated by a single industry. The area's major employers are listed below.

MAJOR EMPLOYERS

Employer	# of Employees
United I.S.D.	4,500
Laredo I.S.D.	3,587
City of Laredo	2,084
Laredo Medical Center	1,700
US Dept. Customs & Border Protection	1,628
McDonald's Restaurant	1,333
H.E.B. Grocery	1,285
Webb County	1,270
Texas A&M International University	1,027
The Laredo National Bank	977
Wal-Mart	934
Laredo Community College	831

Source: Laredo Development Foundation – January 2005

INCOME

Personal income is a significant factor in determining the real estate demand in a given market. From 2000 to 2005, the Laredo MSA's income grew at an average annual compound rate of 3.41%, compared to Texas average annual compound growth rate of 1.86%. The two market areas displayed a similar pattern in per capita income growth over the last ten years. the Laredo MSA's average annual compound growth rate was 2.79% as compared to 2.81% for Texas. Projections for the next five and ten year periods reflect growth rates for the Laredo MSA that are [parallel to//greater than/less than] the anticipated gains for Texas. For the two time frames, 2005 to 2010 and 2005 to 2015, the Laredo MSA is anticipated to experience 3.68% and 3.20% average annual growth rates, respectively, compared to the projected growth rates of Texas of 2.57% and 2.17%.

An examination of income per household reveals that, historically, the Laredo MSA has experienced a growth rate that varies as compared to the growth rate for Texas. Future projections predict faster growth for the Laredo MSA compared to Texas. In absolute dollars, the Laredo MSA's personal income historically has been below that of Texas, both on per capita and per household bases.

INCOME PER CAPITA COMPARISON					
	Texas			Laredo MSA	
	Year	Income/Capita ¹	% Change	Income/Capita ¹	% Change
Historical	1995	\$23,158		\$13,422	
	2000	\$27,863	20.3%	\$14,942	11.3%
	2001	\$27,796	-0.2%	\$15,141	1.3%
	2002	\$28,076	1.0%	\$16,043	6.0%
	2003	\$27,365	-2.5%	\$15,250	-4.9%
	2004	\$29,477	7.7%	\$16,846	10.5%
Current	2005	\$30,559	3.7%	\$17,665	4.9%
Projected	2006	\$31,479	3.0%	\$18,405	4.2%
	2007	\$32,381	2.9%	\$19,144	4.0%
	2008	\$33,205	2.5%	\$19,844	3.7%
	2009	\$33,962	2.3%	\$20,510	3.4%
	2010	\$34,693	2.2%	\$21,164	3.2%
	2015	\$37,887	9.2%	\$24,208	14.4%
Average Annual Compound Change		Historical			
		Past 5 years	1.86%		3.41%
		Past 10 years	2.81%		2.79%
		Projected			
		Next 5 years	2.57%		3.68%
		Next 10 years	2.17%		3.20%

¹ Income figures are stated in year 2000 constant dollars.

Source: NPA Data Services, Inc.; compiled by IRR

INCOME PER HOUSEHOLD COMPARISON					
Texas			Laredo MSA		
	Year	Income/Household ¹	% Change	Income/Household ¹	% Change
Current	1995	\$64,998		\$51,381	
	2000	\$78,439	20.7%	\$56,702	10.4%
	2001	\$78,036	-0.5%	\$57,269	1.0%
	2002	\$78,883	1.1%	\$60,707	6.0%
	2003	\$76,971	-2.4%	\$57,925	-4.6%
	2004	\$82,230	6.8%	\$63,291	9.3%
	2005	\$85,087	3.5%	\$66,235	4.7%
	2006	\$87,481	2.8%	\$68,869	4.0%
	2007	\$89,815	2.7%	\$71,487	3.8%
	2008	\$91,924	2.3%	\$73,949	3.4%
Projected	2009	\$93,839	2.1%	\$76,276	3.1%
	2010	\$95,675	2.0%	\$78,551	3.0%
	2015	\$103,479	8.2%	\$88,939	13.2%
Average Annual		Historical			
Compound Growth		Past 5 years	1.64%		3.16%
		Past 10 years	2.73%		2.57%
		Projected			
		Next 5 years	2.37%		3.47%
		Next 10 years	1.98%		2.99%

¹ Income figures are stated in year 2000 constant dollars.

Source: NPA Data Services, Inc.; compiled by IRR

CONCLUSION

Overall, the economic outlook for the Laredo MSA is positive. Total population is projected to increase steadily. More importantly, the area is projected to experience increasing employment growth. Based on this analysis, it is anticipated that the Laredo MSA will continue to grow and prosper. The expected growth should provide an economic base that supports demand for real estate in the subject neighborhood and for the subject property. These conditions should stimulate increases in general property values within the foreseeable future.